EXPLANATORY MEMORANDUM TO

THE FINANCIAL RESTRICTIONS (IRAN) ORDER 2009

2009 No. 2725

1. This explanatory memorandum has been prepared by Her Majesty's Treasury and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This Order contains a direction imposing financial restrictions in response to the risk posed to the national interests of the United Kingdom by activity in Iran that facilitates the development or production of nuclear weapons. The direction requires the United Kingdom financial sector to cease dealings with two named entities in Iran.

3. Matters of special interest to the Joint Committee on Statutory Instruments.

3.1 None.

4. Legislative Context

4.1 This is the first use of the powers conferred on the Treasury by Schedule 7 to the Counter-Terrorism Act 2008. There are three possible preconditions under paragraph 1 of Schedule 7 for the use of the power to make a direction. In this case, the Treasury consider that the third condition is satisfied. The Treasury believe that activity in Iran that facilitates the development or production of nuclear weapons poses a significant risk to the national interests of the United Kingdom. As the direction is given to all persons operating in the financial sector it must, in accordance with paragraph 14(1) of Schedule 7, be contained in an order, and as the direction is concerned with limiting or ceasing business, and so is of a kind mentioned in paragraph 13 of Schedule 7, the Parliamentary procedure set out in paragraph 14(2) applies.

4.2 In accordance with paragraph 16(4) of Schedule 7, if the Order is not previously revoked, it will cease to have effect at the end of one year from the date of making.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Exchequer Secretary to the Treasury has made the following statement regarding Human Rights:

In my view the provisions of the Financial Restrictions (Iran) Order 2009 are compatible with the Convention rights.

7. Policy background

- ***What is being done and why***

7.1 The Order contains a direction to UK financial and credit institutions to cease all transactions and business relationships with two named entities in Iran and their branches. These restrictions are being imposed in respect of these entities because of their provision of services for Iran's ballistic missile and nuclear programmes. It is considered that a direction to cease business with these entities will contribute to addressing the risk to the UK national interests posed by Iran's proliferation sensitive activities. The Treasury has considered whether any of the other kinds of direction permitted by Schedule 7 to the Counter-Terrorism Act 2008 would be sufficient and concluded that a direction to cease business is necessary.

8. Consultation outcome

8.1 Given the nature of the Order, no formal consultation procedure was carried out. However, the British Bankers Association and some of its members; the Financial Services Authority; the Office of Fair Trading; the Serious Organised Crime Agency; the Department for Enterprise, Trade and Investment, Northern Ireland; HM Revenue and Customs; the Joint Money Laundering Steering Group and representative members of the insurance industry were consulted on an informal basis.

9. Guidance

9.1 An interpretive note giving further explanation of the requirements and effects of the direction has been prepared by the Treasury and is available on the Treasury website. In addition, the Joint Money Laundering Steering Group and Her Majesty's Revenue and Customs have issued general guidance on compliance with a direction given under the Counter-Terrorism Act 2008.

10. Impact

10.1 The impact on business, charities or voluntary bodies is minimal. Only UK financial and credit institutions are covered by the requirements of the Order. If these institutions do not have any business with the two entities, they will merely have to factor the restriction into their current compliance procedures. Those institutions undertaking business with the two entities will be more affected but provision is made under the Counter-Terrorism Act 2008 for the Treasury to licence exemptions from the restrictions. Legitimate existing contracts may be exempted, and costs thereby minimised. Third parties with affected business may also apply for a licence. However, no estimates of costs are available, as full consultation was not possible due to the sensitive nature of the Order.

10.2 The impact on the public sector is similarly difficult to estimate. However, the supervisory and enforcement authorities in relation to a direction are the same as those under existing money laundering and terrorist financing legislation, and this provides for an efficient integrated approach within existing resources. Consequently, significant additional costs of securing compliance with the direction are not

anticipated. There will be some additional cost in raising awareness of the direction and in dealing with questions and queries, but this is expected to be minimal.

10.3 An Impact Assessment is attached to this memorandum.

11. Regulating small business

11.1 The legislation applies to small businesses that are financial and credit institutions, with a number of exclusions for certain firms that have only limited, occasional or incidental financial activities. This approach replicates existing procedures for business regulated for existing money laundering and terrorist financing purposes.

12. Monitoring & review

12.1 The direction has a time limit of one year. The Treasury will keep the direction under review and is required by paragraph 38 of Schedule 7 to the Counter-Terrorism Act 2008 to report every year to Parliament on the exercise of their functions under the Schedule. We intend to review costs with affected businesses within six months of making the Order.

13. Contact

The Financial Crime Team at the Treasury Tel: 0207 270 4300 or email: ctact@hm-treasury.x.gsi.gov.uk can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency:	Title:	
HM Treasury	**Impact Assessment of Directions on Bank Mellat and Islamic Republic of Iran Shipping Lines**	
Stage: Implementation	**Version:** 1	**Date:** 7 October 2009
Related Publications: Counter-Terrorism Act 2008; Interpretive Note on Directions; General licence 1; General Licence 2; General licence 3		

Available to view or download at:

http://www.hm-treasury.gov.uk

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What is the problem under consideration? Why is government intervention necessary?

Iran's continued nuclear and ballistic missile proliferation-sensitive activity, in defiance of international efforts to control proliferation, poses a significant risk to the national interests of the UK. Bank Mellat has been involved in transactions related to financing Iran's nuclear and ballistic missile programme and the Islamic Republic of Iran Shipping Lines (IRISL) has transported goods for both programmes, and are contributing to this risk. Government intervention is necessary to address the risks posed by Iranian proliferation to the UK's national interests.

What are the policy objectives and the intended effects?

The Government's policy objective is to disrupt Iran's proliferation-sensitive activities. The intended effect is to reduce the risk to the UK's national interest posed by this Iranian activity. In line with this, the government also wants to prevent the UK financial sector from being unknowingly used to facilitate Iran’s proliferation-sensitive activities.

What policy options have been considered? Please justify any preferred option.

1. Taking no action: This option fails to address the significant risks of Iran's proliferation-sensitive activities, and Bank Mellat and IRISL's contribution to these.

2. To issue a direction to financial institutions to undertake systematic reporting on transactions with Bank Mellat and IRISL. This would not be as effective in mitigating the risks.

3. To issue a direction to financial institutions to cease business relationships and transactions with Bank Mellat and IRISL. This is the most effective route of achieving UK's objectives and is the Government's preferred option.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The Direction expires after 12 months, and a report will be issued to Parliament annually on the use of the CT Act powers. Government will also work with industry to review costs after 6 months.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Sarah McCarthy-Fry .....Date: 7th October 2009

Summary: Analysis & Evidence

Policy Option: 3	Description:

COSTS

ANNUAL COSTS	
One-off (Transition) **Yrs**	Description and scale of **key monetised costs** by 'main affected groups' No estimates of monetised costs are available. Due to the sensitive nature of this direction and associated security concerns, full consultation on costs was not possible.
£	
Average Annual Cost (excluding one-off)	
£	**Total Cost** (PV) **£**

Other **key non-monetised costs** by 'main affected groups' Due to the sensitive nature of this direction and associated security concerns, full consultation on costs was not possible.

BENEFITS

ANNUAL BENEFITS	
One-off **Yrs**	Description and scale of **key monetised benefits** by 'main affected groups' No estimates of monetised benefits are available. The benefits associated with this direction are not quantifiable.
£	
Average Annual Benefit (excluding one-off)	
£	**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups' Unquantifiable benefit of disrupting Iran's proliferation-sensitive activities and reducing the risk to the UK's national interest; thereby contributing to a range of UK public interest objectives: protecting the integrity of the financial sector, supporting national security, and furthering foreign policy goals.

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?				UK, branches in EEA	
On what date will the policy be implemented?					
Which organisation(s) will enforce the policy?				FSA, HMRC, OFT	
What is the total annual cost of enforcement for these organisations?				£ Not available	
Does enforcement comply with Hampton principles?				Yes	
Will implementation go beyond minimum EU requirements?				N/A	
What is the value of the proposed offsetting measure per year?				£ N/A	
What is the value of changes in greenhouse gas emissions?				£ N/A	
Will the proposal have a significant impact on competition?				No	
Annual cost (£-£) per organisation (excluding one-off)		Micro	Small	Medium	Large
Are any of these organisations exempt?		No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Decrease of £ **Net Impact** **£**

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

International and Domestic Policy Context
HMG is committed to reducing nuclear proliferation and protecting the international system from abuse by involvement in proliferation-sensitive activity.

Iran's continued proliferation-sensitive activity is being undertaken in defiance of international controls, represents a challenge to these efforts, and is a risk to the UK's national interests.

The international community has expressed ongoing concerns in relation to Iran's activities in support of its proliferation-sensitive activity.

In 2003, the International Atomic Energy Agency (IAEA) in Vienna found that Iran had been developing a clandestine nuclear programme for 18 years, in breach of its obligations to the IAEA as a signatory to the Treaty on the Non-Proliferation of Nuclear Weapons. Iran has claimed that its nuclear activities are for the production of a civil power generation programme, but the international community shares concerns that the same technology could be used to produce nuclear weapons.

On 4 February 2006, the IAEA Board reported the issue to the UN Security Council in its resolution GOV/2006/14. In a Presidential Statement on 29 March 2006, the Security Council called on Iran, among other things, to re-suspend its sensitive nuclear activities.

The Security Council has adopted several resolutions demanding that Iran suspend all enrichment-related and reprocessing activities, and has imposed incremental sanctions on individuals and entities involved in Iran's nuclear programme. At the same time, the UK and the Security Council have made clear that they will ease or end sanctions if Iran takes the steps necessary to restore confidence in its intentions: suspend uranium enrichment, co-operate with the IAEA, and put in place safeguards so that the IAEA can ensure that Iran's programme is purely for peaceful purposes.

On 31 July 2006 the Security Council adopted resolution 1696(2006), which, among other issues, made suspension of enrichment-related and reprocessing activities a mandatory obligation on Iran. On 22 August, the Government of Iran gave a formal response to the proposals offered by E3+3 countries (the UK, France, Germany, the US, China and Russia) but failed to address the key requirement to suspend sensitive nuclear activities. As a result the Council unanimously adopted resolution 1737 (2006). Among other things, the resolution reinforced and expanded the mandatory suspension by Iran of sensitive nuclear technologies. The resolution further imposed a range of sanctions measures targeted at Iran's proliferation sensitive nuclear and missile programmes. In the face of continued non-compliance from Iran, the Security Council adopted resolution 1747 (2007) on 24 March 2007, which imposed further sanctions against Iran as a means of persuading the Government of Iran to return to a suspension of its sensitive nuclear activities and thereby to facilitate negotiations. Iran has continued to refuse to fulfil its international obligations to suspend uranium enrichment, answer the many outstanding questions about its nuclear programme, and co-operate with the IAEA. As a result the Security Council adopted on 3 March 2008 resolution 1803, which applied another increment of pressure by: strengthening the restrictions on individuals and entities closely associated with Iran's proliferation sensitive nuclear activities and with its ballistic missile programme; increasing vigilance over the activities of Iranian banks, particularly Banks Melli and Saderat; introducing a provision for careful scrutiny of new commitments for export credits to Iran; and encouraging Member States to inspect cargo to and from Iran where there are grounds to believe prohibited items are being transported. On 27 September 2008, the Security Council adopted resolution 1835 (2008), reaffirming its commitment to a dual-track process - engagement with Iran on the one hand, if it suspends uranium enrichment and co-operates with the IAEA, and sanctions on Iran on the other hand, if it does not.

In its Political Statement of July 8, 2008, the G-8 expressed: "serious concern at the proliferation risks posed by Iran's nuclear programme and Iran's continued failure to meet its international obligations. We urge Iran to fully comply with UNSCRs 1696, 1737, 1747 and 1803 without further delay, and in particular to suspend all enrichment-related activities. We also urge Iran to fully cooperate with the IAEA, including by providing clarification of the issues contained in the latest report of the IAEA Director General."

In March 2009, IAEA published a report noting that, contrary to the decisions of the UN Security Council, Iran has not suspended its enrichment-related activities or its work on heavy water projects, including the construction of the heavy water moderated reactor. It also noted Iran's continued lack of cooperation with the IAEA. On June 15, 2009, the Director General made the following statement to the IAEA Board of Governors:

"The Agency has been able to continue to verify the non-diversion of declared nuclear material in Iran. Regrettably, however, Iran has not implemented any of the measures called for by the Security Council and by the Agency´s Board of Governors. And there has been no movement by Iran on outstanding issues which need to be clarified to exclude the possibility of military dimensions to Iran´s nuclear programme. As I mentioned before, without implementation by Iran of the additional protocol and the required safeguards measures, as well as the clarification of outstanding issues, the Agency will not be able to provide assurances about the absence of undeclared nuclear activities in Iran."

In September 2009, Iran provided information to the IAEA on a secret enrichment facility at Qom, which has existed since mid-2006. The Iranians then carried out a routine test of ballistic missiles on 26 and 27 September (they have been test launching various types of missiles every few months).

Senior diplomats from the E3+3 (UK, France, Germany + US, China, Russia) met Iran's senior nuclear negotiator Saeed Jalili on 1 October. The Iranians have agreed to further dialogue, including a second meeting in October. They have also now committed to co-operate fully with the IAEA over Qom, and allow an inspection on 25 October.

Some of these recent developments have given added emphasis to the UK concerns about the risks posed by Iran in relation to its proliferation-sensitive activity, and we will take appropriate action to reduce risks, protect the international system and support international action. Presently**,** the assets of several entities involved with Iran's proliferation sensitive activities are frozen in the UK as a result of their listing under the UN Security Council Resolutions 1737 and 1747. This includes Bank Sepah and its UK subsidiary Bank Sepah International plc. The assets of Bank Melli and its UK subsidiary Bank Melli plc are also frozen under EU Council Decision 2008/475/EC.

UK institutions must comply with EU Regulation 1110/2008 which includes requirements for continuous vigilance on dealings with credit and financial institutions domiciled in Iran, in particular Bank Saderat, and their branches and subsidiaries, or credit and financial institutions controlled by persons and entities domiciled in Iran, as listed in Annex IV of the amended Regulation. The Treasury issued the Guidance Note "Restrictive Measures against Iran" in November 2008 to assist credit and financial institutions conducting business with listed Iranian financial institutions in complying with these requirements. In their activities with listed Iranian entities, UK institutions must: exercise continuous vigilance over account activity including through their programmes on customer due diligence and under their obligations relating to money-laundering and financing of terrorism; require that all information fields of payment instructions which relate to the originator and beneficiary of the transaction in question be completed; and if that information is not supplied, refuse the transaction; maintain all records of transactions for a period of five years and make them available to national authorities on request; and promptly submit a proliferation finance report to SOCA using the SAR format and process if they suspect or have reasonable grounds to suspect that funds are related to proliferation financing.

EU Regulation 1110/2008 also introduces reporting requirements on the transactions of Bank Saderat branches and subsidiaries within Member States, including its UK subsidiary, Bank Saderat plc.

Schedule 7 of the Counter Terrorism Act 2008 (CT Act), came into force in November 2008. The Treasury was given new powers to mitigate risks associated with proliferation financing, terrorist financing and money laundering. The CT Act enables the Treasury to direct UK financial and credit institutions to cease transactions and/or business relationships with a person carrying on business in a non-EEA country, the government of a country or a person resident or incorporated in the country. The Treasury may also issue a direction requiring the provision of specified information and documents relating to transactions and business relationships with such persons (systematic reporting). The Treasury may also issue directions requiring the carrying out of enhanced customer due diligence and/or enhanced ongoing monitoring of transactions or business relationships. The requirements imposed by a direction must be proportionate having regard to the advice of the FATF or the risk to the national interests of the United Kingdom. The CT Act gives Treasury the power to license transactions, so that

otherwise banned transactions are exempt from the requirements of a direction to cease business, as appropriate.

Policy objectives

The Government's policy objective is to disrupt Iran's proliferation-sensitive activities and encourage it to cooperate with international controls on nuclear proliferation. The intended effect is to reduce the risk to the UK's national interest. The government also wants to prevent the UK financial sector from being unknowingly used to facilitate Iran's proliferation-sensitive activities.

Policy options

The Treasury has considered 3 options.

1. Do nothing

Not taking action to apply financial restrictions in regard to jurisdictions of proliferation concern would do nothing to address the risks associated with Iran's nuclear and ballistic missile programme and the contribution to these risks posed by Bank Mellat and IRISL. Without intervention, the risk to the UK's national interests will not be mitigated.

2. To use CT Act powers to issue a direction to undertake systematic reporting with Bank Mellat and IRISL

This measure could provide potentially useful information for investigative purposes as well as dissuade these and other entities from undertaking activities in support of proliferation through the UK financial sector. However, to issue a direction under the CT Act to financial institutions to undertake systematic reporting on Bank Mellat and IRISL would be costly for institutions to implement, as there may be a need for new internal reporting systems to be set up. We also do not consider this measure to be of sufficient severity to mitigate the current risk of Iranian proliferation.

As a result of these factors, this option would not be the most effective and proportionate means of mitigating the risk posed to national interests.

3. To use CT Act powers to issue a direction to cease business with Bank Mellat and IRISL

The third option is to issue a direction to financial institutions to cease business relationships and transactions with Bank Mellat and IRISL using CT Act powers. This measure would cause some disruption to those activities of Bank Mellat and IRISL involving the UK financial sector, thereby disrupting wider operations that have been used in support of Iran's proliferation-sensitive activity. This option presents the most effective restrictions that can be used under the CT Act to protect against proliferation-sensitive activities.

As a result, we consider issuing a direction to cease business is the most effective route of achieving UK objectives. The government believes that the requirements imposed by this direction are proportionate having regard to the risk to the UK's national interests. This is government's preferred approach.

Costs and Benefits

Costs

Due to the use of intelligence material and potential negative impacts on the effectiveness of the direction if plans were disclosed prior to implementation, the Treasury was unable to consult fully with stakeholders in the financial sector to determine the expected costs of implementing this direction for firms, and overall costs to the sector. However, financial sector stakeholders have been consulted in general terms on the implementation of the CT Act which has informed our approach to this direction.

The direction applies requirements to credit and financial institutions (including EEA branches) as defined in the Money Laundering Regulations 2007, with the addition of insurance companies as defined

by section 1165(3) of the Companies Act 2006. This includes FSA authorised firms, money service businesses and credit institutions. Firms will have to establish whether any current or future business relationships are affected and take any steps to comply with the requirements of the direction. In this case, firms will review their business dealings and ensure their systems and controls can implement the requirements of the direction. As this will be the first direction to be issued under the new powers of Schedule 7 of the CT Act, indicative costs of compliance for firms are unavailable. However, institutions currently have in place systems to meet obligations relating to financial sanctions and anti-money laundering. This should minimize the impact on firms of complying with the direction, as they are likely to be able to use current procedures and systems to a considerable extent. Compliance may entail some additional costs for firms but it is difficult to estimate the costs at this time.

Only those institutions currently doing business with Bank Mellat or IRISL will have to take action to cease business under the requirements of the direction (although all institutions will be obliged not to enter into new business). Although there is no specific information with respect to the exposure of UK firms to Bank Mellat and IRISL, the UK financial sector currently has very low overall exposure to Iranian business. As a result, it is expected that there will only be a minority of institutions that undertake transactions or have existing business relationships with the entities. However, there are a very small number of UK subsidiaries of the two designated entities, on which the impact of this direction is likely to be greater. Overall, it is expected that overall compliance costs for the sector will be moderate, although any institution with significant links to Bank Mellat and IRISL will face larger costs.

Individuals or companies involved in or intending to undertake transactions with Bank Mellat may have to find alternative means to undertake transactions, which may entail some minor costs. However, the licensing provisions in the CT Act enable the Treasury to exempt certain acts from the requirements of a direction. Those affected by the direction are accordingly able to apply to HMT for a licence for acts to be exempted from the prohibition where there could be disproportionate impact on a third party. As a result, some of the costs incurred by individuals and companies may be mitigated. The Treasury will issue three general licences at the same time as this direction, enabling relevant persons to hold funds or accounts for Bank Mellat and IRISL, subject to certain conditions, to make payments due to Bank Mellat and IRISL under an existing contract, subject to payment being made to a ‘restricted account’ in the UK, which Bank Mellat and IRISL will not have access to, and to provide insurance cover for the designated entities under an existing contract for a period of up to 7 days following the direction coming into force.

The costs of undertaking supervision and compliance associated with this direction are similarly difficult to estimate. Compliance and enforcement provisions build upon existing anti-money laundering and counter-terrorist financing (AML/CTF) enforcement and supervision arrangements. The supervision of compliance with the direction will be integrated into supervisors’ current enforcement activities and systems concerning AML and CTF.

The FSA’ s approach to securing firms' compliance will be to focus on their systems and controls. Many of these systems and controls are likely to be in place to meet obligations relating to financial sanctions and anti-money laundering. These are already considered by the FSA within existing supervisory resources. Many firms supervised by the FSA do not carry out business with the designated entities. Consequently, the FSA does not anticipate significant additional costs in securing firms' compliance with the direction. There will be an additional cost in raising awareness of the direction within the FSA and in dealing with questions and queries, but this is expected to be minimal.

HMRC’s supervisory and enforcement costs will be resourced from existing resources. HMRC estimates that its costs will include approximately £20,000 for start up, including awareness raising, consultation and preparing guidance. With respect to public sector administrative costs, HMRC estimates that costs associated with general compliance for this direction will be approximately 2 officers per annum of £65,000 (staff costs).

From discussions with OFT and DETI NI, we do not expect that the firms they supervise undertake business affected by this direction. As a result, additional costs are expected to be negligible.

There will be administrative costs for HM Treasury in relation to responding to public queries and operating a licensing regime. It is estimated that these costs will amount to 2 persons per annum of approximately £147,108. This will be resourced from existing Treasury resources.

This Order will likely increase the business costs of Bank Mellat and IRISL but given security considerations, Treasury could not consult on these costs. Requiring firms to cease business will cause Bank Mellat and its branches and IRISL to be cut off from the UK financial system. The access to the global financial system of these entities would be reduced by lack of access to the UK, making it more difficult and potentially more costly for these entities to operate.

Benefits

The benefits are not quantifiable. The Government's policy objective is to disrupt Iran's proliferation-sensitive activities and encourage it to cooperate with international controls on nuclear proliferation. Disrupting these activities contributes to reducing the risk to the UK's national interest of this Iranian activity and also preventing the UK financial sector from being unknowingly used to facilitate Iran's proliferation-sensitive activities.

Offences and penalty provisions

Civil and criminal offences and penalties apply in relation to non-compliance with the requirements of this Order. The penalty for a breach of this direction could be a fine, imprisonment for a maximum of two years, or both a fine and imprisonment. These penalties are the same as those that enforcement authorities and courts may impose for non-compliance with the requirements of the Money Laundering Regulations 2007.

Failure to comply with the terms of a licence exempting firms from the requirement of a direction is subject to civil penalties.

Enforcement and supervision powers

The CT Act created new enforcement and supervision powers, modelled on the Money Laundering Regulations 2007. These conferred powers on the regulators of credit and financial institutions: the Financial Services Authority, HM Revenue and Customs, the Office of Fair Trading and the Department of Enterprise, Trade and Investment in Northern Ireland. This approach to supervision will closely follow Hampton principles.

The supervisory structure and compliance and enforcement procedures of these powers are therefore consistent with those which currently exist in relation to AML/CTF. The supervisory authorities will supervise compliance with the direction as part of their wider supervisory role in relation to existing money laundering and terrorist financing requirements. Supervisors have similar powers to require compliance and conduct enforcement under the AT Act as they have under the Money Laundering Regulations; the supervisors are responsible for the detailed implementation of these powers.

Enforcement costs

As discussed above in the costs section, enforcement provisions build upon existing anti-money laundering and counter-terrorist financing arrangements. The supervision of compliance with the direction will be integrated into supervisors' current enforcement activities and systems concerning AML and CTF. Also, it is expected that a limited number of businesses will be impacted by this direction. See above for discussion of supervision and enforcement costs of the supervisors.

Conclusion

Iran continues to fail to meet its international obligations. Most notably, its nuclear programme presents an immediate challenge to the global non-proliferation regime. Iran's ongoing improvement of its ballistic missile capabilities also continues to cause international concern.

Activity in Iran which facilitates the development or production of nuclear weapons poses a significant risk to the national interests of the UK. Government intervention is necessary to address the risks posed by Iranian proliferation to the UK's national interests.

The Government's policy objective is to disrupt Iran's activities in support of its nuclear proliferation programme. In line with this, the Government wants to prevent the UK financial sector from being

unknowingly used to facilitate Iran's proliferation sensitive activities. The intended effects are protecting the national security of the UK. To issue a direction to financial institutions to cease business relationships and transactions with Bank Mellat and the IRISL using powers under the CT Act is the most effective route of achieving the UK's objectives and is the Government's preferred option.

Regarding the specific impact tests in the Checklist:

Competition assessment

This direction applies uniformly to all firms operating in the UK financial sector, subject to limited exemptions for firms occasionally engaged in financial business but not acting by way of business. There should be no material impact on competition among financial and credit institutions.

UK firms will no longer be able to compete for business with these two entities. Similar restrictions already exist for US firms.

Small firms

There are exemptions in the CT Act for certain firms that have limited or occasional financial activities. These businesses fall outside the scope of the direction.

There is no wider exemption for small firms generally. The costs of compliance could be proportionately higher for a smaller business to the extent that they are affected; however, as they are already regulated for the purposes of the Money Laundering Regulations 2007, such firms should already have compliance systems in place.

Human Rights

The direction strikes an appropriate balance between the requirements of the public interest and the requirements of the protection of an individual's rights, and provision of a fair hearing and respect for privacy, and is therefore compatible with article 1 of protocol 1 to, and article 6 of the ECHR, as set out below:

Article 1 of Protocol 1

In requiring the cessation of a person's business or transactions with persons in a third country, the direction may interfere with the peaceful enjoyment of his possessions and thus engage Article 1 of Protocol 1 of the ECHR. We consider such interference is justified in the public interest, given the risk posed to the UK's national interest by activity in Iran. The Treasury's power to grant licences to exempt certain acts from the restrictions potentially mitigates any interference, and enables the Treasury to ensure that a fair balance is struck in any particular case.

Article 6

Supervisory authorities can impose civil penalties for breaches of the requirements of a direction. This is subject to a right of appeal to an independent tribunal, thus satisfying the requirements of article 6.

Persons affected by a direction can challenge the direction in the High Court under the procedure in Part 5 of the CT Act.

Other impacts

The following issues have also been considered in this assessment and the Government has decided that these measures have no impact on them.

- Legal aid
- Sustainable development
- Carbon assessment and other environment
- Health
- Race, Disability, Gender equality
- Rural proofing

Consultation

Due to the need for the direction not to become public knowledge prior to the direction being laid**,** the government has been unable to consult in line with Cabinet Office guidelines. However, active discussion and correspondence with a range of appropriate parties was carried out as far as possible given the restrictions, including: the British Bankers Association and its members; the Financial Services Authority; the Office of Fair Trading; the Serious Organised Crime Agency; the Department for Enterprise, Trade and Investment, Northern Ireland; HM Revenue and Customs; the UK Money Transmitters Association; representative members of the insurance industry and the Joint Money Laundering Steering Group.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	*Results in Evidence Base?*	*Results annexed?*
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	Yes	No
Rural Proofing	No	No

Annexes